

NOTES FOR REMARKS BY GERALD K. BOUEY
GOVERNOR, BANK OF CANADA BEFORE THE
STANDING COMMITTEE OF THE HOUSE OF COMMONS
ON FINANCE, TRADE AND ECONOMIC AFFAIRS

M. B. ...
EXTRA

I am glad to have an opportunity to appear before this Committee and I hope that I can be of assistance to you.

I do not really have an opening statement. As you know my Annual Report to the Minister of Finance was tabled only the day before yesterday and I believe that it, particularly the first section, serves the purpose of an opening statement. It provides a brief description of the monetary policy the Bank has been following and an up-to-date review of the economic situation as we see it. It would needlessly take up the Committee's time for me to go over all of that ground again in any great detail. However, I would like to emphasize a few of the main points that I tried to convey in that Report.

First of all, it has been evident to all of us that the economy has not been operating at a satisfactory level, that unemployment has been too high, and that large increases in aggregate demand (or total spending), output and employment would be needed for a time in Canada if the economy was to regain more satisfactory levels.

The second main point that I wish to stress is that the Bank of Canada has been following an expansionary monetary policy and has been doing so for a very considerable time. Its policy has been designed to provide financial conditions that encourage the growth of output and job creation. In seeking to maintain relatively easy conditions in Canadian financial markets the Bank has also had in mind the potentially dampening effects on economic

expansion of an undue appreciation of the foreign exchange value of the Canadian dollar that would arise from an excessive inflow of capital from abroad.

Evidence that monetary policy has been expansionary is readily available. Let me mention just a few indicators. In 1972 the chartered banks' total loans, mortgages and similar investments increased by 23 per cent, following a 21 per cent increase in 1971. So far this year the expansion of bank lending has been proceeding even more rapidly. The public's holdings of currency and bank deposits rose by 15 per cent in 1971 and by slightly more in 1972. Here again the rapid expansion has continued in 1973. These are very high rates of growth. They give striking evidence of the extent to which monetary policy has provided for the credit and liquidity needs of strong economic growth. Throughout the financial system funds have been readily available. Though interest rates, particularly long-term rates, are relatively high by historical standards because they now include a certain component for inflationary expectations of investors, they are significantly lower than the peaks reached three years ago. Short-term rates are considerably lower in Canada than in the United States or in the Euro-dollar market.

The economy is now growing strongly. There was a brief interruption in the third quarter of last year but after that the economy has rebounded strongly. The seasonally-adjusted rate of unemployment has been declining in recent months and this of course has been a most welcome development. The prospects for economic growth in Canada this year appear to be good, particularly since economic activity is strong in the United States and is rising overseas.

There are always some uncertainties around, however, and some of these are in the international area. The recent unsettled conditions in world currency markets have been a matter of concern lest they lead ultimately to some restriction of world trade. However, there is clearly a strong desire on the part of major countries to avoid this, as evidenced in the recent conferences of the Group of Ten Countries in which Canada participated.

Although monetary policy in Canada has been preoccupied with the need to expand output and employment, the Bank of Canada has not disregarded the problem of inflation. While permitting a large degree of monetary expansion it has at the same time kept the liquidity of the banking system under close control.

As the Report indicates, the trend of prices in 1972 was disquieting though much of it reflected world-wide influences. The Report draws attention to the risk that at a later stage of the economic expansion aggregate demand may grow too strongly and cause general demand pressures on prices and costs to develop, and that it will be necessary to guard against this danger. One reason for mentioning this matter is that the time-lags in the operation of demand policies may be quite long. It is necessary to keep in mind the fact that the effects of current policies are felt next year, and the year after, as well as this year.

Mr. Chairman, the basic role of the Bank of Canada is a positive one: it is to try to ensure that monetary growth in Canada is rapid enough

to permit the economy to reach and maintain satisfactory operating levels in relation to its expanding labour force and growing industrial capacity -- though not of course so rapid as to invite a further marked escalation of cost and prices increases.